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January 8, 2013

The Honorable Howard P. "Buck" McKeon
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

Subject: *Security Force Assistance: DOD's Consideration of Unintended Consequences, Perverse Incentives, and Moral Hazards*

This letter formally transmits the enclosed briefing that we presented to your staff on November 30, 2012. The House Committee on Armed Services report 112-479 accompanying the National Defense Authorization Act for Fiscal Year 2013 directed GAO to review the procedures the Department of Defense (DOD) has in place to control for the challenges inherent to the provision of military-to-military and security force assistance to foreign partners.¹ In response to the mandate, we addressed the following objectives: (1) What policies, procedures, and guidance does DOD use to consider certain potential risks, such as unintended consequences and perverse incentives, when planning for security force assistance? (2) To what extent does DOD consider the input of the Department of State (State) in evaluating certain potential risks, such as unintended consequences and perverse incentives, when planning for security force assistance?

To conduct this work, we interviewed DOD and State officials, and reviewed DOD joint publications, directives, instructions, and program and planning guidance to identify considerations to control for unintended consequences, perverse incentives, and moral hazards when planning security force assistance.² We reviewed authorizing and appropriations language for selected authorities that can yield corollary security force assistance benefits to identify the level of input State was requested to provide to DOD in evaluating certain potential risks, such as unintended consequences, perverse incentives, and moral hazards when planning security force assistance. We selected these authorities to include ones that are DOD-led and offer a range of U.S. government priorities such as counterterrorism and counternarcotics, as well as an emphasis on specific countries. For each of the selected authorities, we identified the level of input State provides: (1) concurrence—the legislation explicitly calls for concurrence from State; and (2) consultation—the legislation explicitly calls for consultation with State. We also interviewed

¹For the remainder of the report, we refer to "security force assistance" for brevity. Security force assistance consists of DOD activities that contribute to unified action by the U.S. government to support the development of the capacity and capability of foreign security forces and their supporting institutions (DOD Instruction 5000.68 Security Force Assistance).

²For definitions of these three terms, see page 4 of the attached briefing slides.

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DOD and State officials to obtain information on coordination—the level of input provided by DOD and State when the legislation does not specifically require either concurrence or consultation.

We did not review the legislation for all authorities that can yield security force assistance benefits, directly or indirectly, nor did we review all such authorities for which State might provide input. Thus, the results we obtained cannot be generalized to the universe of authorities that can support security force assistance activities. We conducted this review from August 2012 to January 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, we identified three DOD joint publications and two guidance documents that call for the consideration of unintended consequences, moral hazards, or risk mitigation procedures in planning for security force assistance. For example, Joint Publication 5-0, *Joint Operations Planning*, explicitly advises commanders to consider undesired consequences when planning operations and to refine plans to mitigate any undesired effects. This joint publication also includes procedures, such as the mission analysis and course of action analysis, to mitigate risks, which could include unintended consequences. Further, the *Security Force Assistance Handbook*, a guidance document, explains that site surveys serve to determine the suitability of the foreign security force for training, which may include considerations for potential unintended consequences and moral hazards, according to DOD officials. In addition to DOD joint publications and guidance, we reviewed a DOD directive and an instruction that DOD identified as relevant for our review and found that neither document specifically calls for consideration of unintended consequences or similar risks. However, DOD officials noted that they may incorporate considerations for unintended consequences and similar risks in a subsequent update to DOD Directive 5132.03, *DOD Policy and Responsibilities Relating to Security Cooperation*.

In addition, we found that DOD receives input from State for the seven authorities we reviewed that can yield security force assistance benefits: four required concurrence of the Secretary of State or the Chief of Mission; one required consultation between DOD and State; and two relied on coordination mechanisms other than concurrence or consultation. According to State officials, authorities that require the concurrence of the Secretary of State are reviewed by all of the department's relevant experts and bureaus, and thus have the best chance of identifying and considering the potential for unintended consequences compared to other forms of coordination. See the enclosed briefing slides for additional information.

We provided a draft of the briefing slides to DOD and State. Both agencies provided technical comments, which we incorporated, as appropriate.

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We are sending copies of this report to the Secretaries of Defense and State and appropriate congressional committees. This report will also be available at no charge on our website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-7331 or johnsoncm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Judith McCloskey, Assistant Director; Claude Adrien; Kyerion Printup; Ashley Alley; Mary Moutsos; Martin De Alteriis; and Robert Pollard. David Dayton provided technical support.

A handwritten signature in black ink, appearing to read "Charles M. Johnson, Jr.", with a large, stylized loop at the end.

Charles Michael Johnson, Jr.
Director, International Affairs and Trade

Enclosure

DOD's Consideration of Unintended Consequences, Perverse Incentives, and Moral Hazards in Security Force Assistance



DOD's Consideration of Unintended Consequences, Perverse Incentives, and Moral Hazards in Security Force Assistance

**A Briefing to the Staff of the
House Committee on Armed Services
November 30, 2012**

For more information, contact Charles Michael Johnson, Jr. at (202) 512-7331 or johnsoncm@gao.gov.

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- Objective 2: To what extent does DOD consider the input of the Department of State (State) in evaluating certain potential risks, such as unintended consequences and perverse incentives, when planning for military-to-military and security force assistance?*

*Note: For the remainder of the slides, we refer to "security force assistance" for brevity. Security force assistance consists of DOD activities that contribute to unified action by the U.S. government to support the development of the capacity and capability of foreign security forces and their supporting institutions (DOD Instruction 5000.68 Security Force Assistance).



Introduction

- This briefing responds to the mandate in House Report 112-479 accompanying H.R. 4310 of the National Defense Authorization Act for fiscal year 2013.
 - The mandate directs GAO to brief the House Committee on Armed Services by November 30, 2012.
 - The briefing should outline the extent to which DOD, either alone or in conjunction with other agencies, considers and evaluates the potential for perverse incentive structures and negative unintended consequences due to moral hazard issues or similar factors when providing assistance to foreign partners.
 - The briefing may focus on a sample of such DOD programs.



Definition of Terms Used in the Mandate

- **Unintended consequences** are negative outcomes that are not intended by the provision of U.S. security force assistance to foreign security forces.
- **A perverse incentive** is an incentive in an assistance program that produces an adverse consequence due specifically to the actions undertaken to receive the assistance.
- **A moral hazard** occurs when a party that receives security force assistance is insulated from risk or believes it is insulated from risk, and behaves differently than if it were fully exposed to the risk. For example, moral hazards may occur when recipient governments or militaries engage in riskier behavior (political oppression of their citizens, military aggression against their neighbors) than they would in the absence of the assistance.

Note: These definitions were developed for the purposes of this review. GAO does not ascribe any legal meaning to them.



Scope and Methodology

For Objective 1—Policies, Procedures, and Guidance:

- We interviewed DOD and State officials, and reviewed DOD joint publications, directives, instructions, and program and planning guidance to identify considerations to control for unintended consequences, perverse incentives, and moral hazards when planning security force assistance.
- As part of our analysis of DOD documents, we systematically reviewed electronic databases containing the directives, instructions, joint publications, and DOD manuals. Specifically, we conducted key word searches of the electronic documents for (1) references to the terms “unintended consequences,” “perverse incentives,” and “moral hazard”; and (2) references to related terms, including “risk,” “assessment,” “security cooperation,” “undesired effects,” “security force assistance,” “estimates,” and “human rights.” We also read the documents for context.

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Scope and Methodology

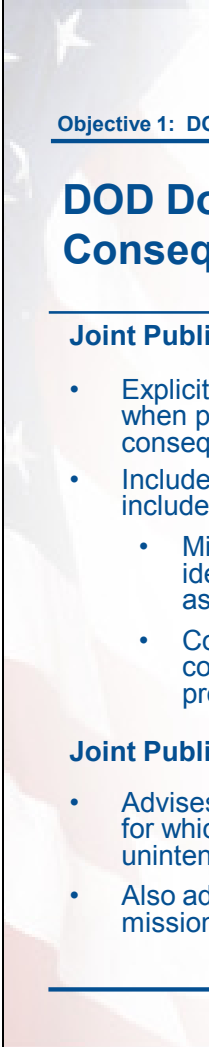

For Objective 2—DOD Input from State:

- Based on our review of DOD's Security Cooperation Toolkit and interviews with DOD and State officials, we selected a judgmental sample of authorities and identified the level of input State provides for each: (1) concurrence—the legislation explicitly calls for concurrence from State; and (2) consultation—the legislation explicitly calls for consultation with State.
- We reviewed the legislation for these authorities and identified the level of input required in the laws. We searched for the terms “concurrence” and “consultation” in the legislation. We did not review the legislation for all security force assistance authorities, nor did we review all of the authorities for which State might provide input. Thus, the results we obtained cannot be generalized to the universe of such authorities.
- We also interviewed DOD and State officials to obtain information on coordination—the level of input provided by State and DOD when the legislation does not specifically require either concurrence or consultation.
- We conducted this review from August 2012 to November 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Several DOD Documents Address Considerations of Unintended Consequences and Other Risks

DOD documents			Document overview
Joint doctrine	Overarching joint publications	Joint Publication 5-0, <i>Joint Operation Planning</i> ; August 11, 2011	Authoritative, keystone publication that reflects current doctrine for planning military operations and forms the core of joint doctrine for joint operation planning for all military operations.
		Joint Publication 3-0, <i>Joint Operations</i> ; August 11, 2011	Authoritative, keystone publication that provides the doctrinal foundation and fundamental principles that guide the U.S. armed forces in joint operations across the range of military operations.
	Operation specific publication	Joint Publication 3-22, <i>Foreign Internal Defense</i> ; July 12, 2010	Authoritative publication that establishes joint doctrine for U.S. forces involved in or supporting foreign internal defense. It discusses how joint and interagency operations support host nation efforts to build capability and capacity to free and protect its society from subversion, lawlessness, and insurgency.
Program and planning guidance	<i>Theater Campaign Planning: Planners' Handbook</i> , February 2012		Handbook based on Joint Publication 5-0 that provides combatant command planners with a conceptual approach to developing theater campaign plans.
	<i>Security Force Assistance Handbook</i> , June 2012		Handbook that provides a reference for U.S. forces involved in or supporting Security Force Assistance, and discusses how joint and interagency operations support partner efforts to build security force capability and capacity.



Objective 1: DOD Policies, Procedures, Guidance

DOD Doctrine Calls for Consideration of Unintended Consequences and Risk Mitigation Procedures

Joint Publication 5-0, *Joint Operation Planning*

- Explicitly advises commanders to consider undesired consequences (unintended consequences) when planning operations and to refine plans to mitigate any undesired effects (unintended consequences).
- Includes procedures to mitigate risks, which could include unintended consequences. Procedures include:
 - Mission analysis – Part of this process involves developing a risk assessment which identifies obstacles or actions that may inhibit successful completion of the mission, and then assessing the impact of these risks to the mission.
 - Course of action analysis – Commanders' staff develop several scenarios for the commander, which are focused on accomplishing the mission. Each course of action should provide flexibility to meet unforeseen events that may arise during execution.

Joint Publication 3-0, *Joint Operations*

- Advises commanders and staff on the challenges of understanding the operational environment for which staff are creating plans, and the greater challenge of considering intended and unintended consequences when planning military actions.
- Also advises commanders and staff to develop a risk management process that is specific to the mission, which includes operations such as security force assistance.

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Objective 1: DOD Policies, Procedures, Guidance

DOD Doctrine Calls for Consideration of Unintended Consequences, Moral Hazards, and Risk Mitigation Procedures

Joint Publication 3-22, *Foreign Internal Defense*

- Advises staff that when planning foreign internal defense operations for partner nations, they should include the following considerations, among others:
 - the long-term societal implications of U.S. assistance efforts (for example, the potential effects of improved military forces on existing regional, ethnic, and religious divisions); and
 - the impact of improved military forces on the regional balance of power.
- Advises personnel providing training to consider the ability of the host nation to use its relationship with the U.S. government to bolster the position of the host nation government with its own people, which we would categorize as a moral hazard consideration.
- Discusses the site survey process, which is a risk mitigation process, according to DOD officials, that is conducted by program officials to determine if the recipients of assistance have the capacity to absorb such assistance. As part of this process, officials ensure that forces receiving training from U.S. forces have been vetted for human rights violations.

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DOD Guidance Calls for Consideration of Unintended Consequences and Other Risks

- DOD handbooks call for the consideration of unintended consequences and other risk mitigation procedures in planning security force assistance.
 - *Theater Campaign Planning: Planners' Handbook* advises commanders to consider political, military, economic, and social factors, among other factors, when identifying challenges in the planning process.
 - *Security Force Assistance Handbook* explains that site surveys serve to determine the suitability of the foreign security force for training, which may include considerations for potential unintended consequences and moral hazards, according to DOD officials.
- In addition to DOD joint doctrine and guidance previously discussed in the slides, we reviewed a DOD directive and an instruction that DOD identified as relevant to our engagement and found that neither document specifically calls for consideration of unintended consequences or other risks.
- DOD officials noted that they may incorporate considerations for unintended consequences and other risks in a subsequent update to DOD Directive 5132.03, *DOD Policy and Responsibilities Relating to Security Cooperation*.

DOD Receives Input from State for Authorities that Can Yield Security Force Assistance Benefits

- State provides some input on the seven authorities we reviewed that yield corollary security force assistance benefits through concurrence or consultation as required by law, or through coordination (see slide 12).
 - Our review found that four required concurrence and one required consultation.
 - State provides input for the remaining two authorities that do not require either concurrence or consultation through interagency coordination.

Objective 2: DOD Input from State



Examples of Input from the State Department

Authority	Input from State		
	Concurrence required by law	Consultation required by law	Coordination reported
Afghan Security Forces Fund	✓		
Coalition Support Funds	✓		
Global Train and Equip (1206)	✓		
Joint Combined Exchange Training			✓
Additional Support for Counterdrug Activities (1004)			✓
Counterdrug Support to Other Countries (1033)		✓	
Support of Special Operations to Combat Terrorism (1208)	✓		

Note 1: According to DOD, these authorities are not "security force assistance authorities." The principal purpose of each is as follows:

- Coalition Support Funds -- reimburse other countries for their logistics and combat support of U.S. military operations;
- Joint Combined Exchange Training -- U.S. Special Operations Forces readiness training;
- Section 1004 -- support counter-drug activities of any other U.S. department or agency or any State, local, tribal or foreign law enforcement agency.
- Section 1033 -- equip specific foreign partners to support their counter-drug activities.
- Section 1208 -- enable foreign forces, irregular forces, groups or individuals engaged in supporting or facilitating U.S. Special Operations Forces operations to combat terrorism.

Note 2: DOD provides input to many of State's authorities, including Foreign Military Financing, the International Military Education and Training Program, the Pakistan Counterinsurgency Capability Fund, and the Global Security Contingency Fund.

Legally Required Concurrence

Concurrence: We found that four of the seven authorities we reviewed required concurrence of the Secretary of State or the Chief of Mission. For example:

- The legislation for section 1206 projects reads in part: “The Secretary of Defense, with the concurrence of the Secretary of State, may conduct or support a program or programs as follows... .”
- The legislation for the 1208 projects reads in part: “The Secretary of Defense may, with the concurrence of the relevant Chief of Mission, expend up to...to provide support to foreign forces...”
- State officials noted that activities requiring Secretary of State concurrence undergo a deliberate, inclusive review process that brings in multiple functional and regional bureaus; however, according to these officials, activities requiring the concurrence of the Chief of Mission do not necessarily receive the same broad review, nor will they necessarily be understood and applied in a regional or global context.
- According to State Department officials, activities that require the concurrence of the Secretary of State are reviewed by all of the department’s relevant experts and bureaus, and thus have the best chance of identifying and considering the potential for unintended consequences compared to other forms of coordination.

Legally Required Consultation

Consultation: We found that one of seven authorities we reviewed required consultation between DOD and State (see slide 12). According to State officials:

- The legislative requirement for consultation does not necessarily precipitate the same formal review process that concurrence does because consultation can mean many things and take many forms.
- Authorities requiring consultation do not receive the same level of review as those requiring concurrence.

DOD Coordination with the State Department

Coordination: We found that for two of the seven authorities we reviewed, State provided input to DOD through means other than concurrence or consultation:

- According to DOD officials, all section 1004 support for foreign nations must originate from U.S. officials outside DOD. State officials said that this coordination is particularly helpful for projects such as fuel and construction that otherwise might be difficult to fund through State authorities.
- For Joint Combined Exchange Training events, the U.S. Special Operations Command Directive 350-3, *Joint Combined Exchange Training*, specifies that planners coordinate with ambassadors and country teams during the planning process, and with State during the approval process, before the Office of the Secretary of Defense provides authorization for Joint Combined Exchange Training events to proceed.



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